

## CONSIDERATIONS REGARDING THE AUDIT VERIFICATIONS AND THE PROCEDURES FOR ATTAINING THEM

Lect. PhD Drăgan Cristian  
Lect. Ph.D. Brabete Valeriu  
University of Craiova  
Faculty of Economics and Business  
Administration, Craiova, Romania

**Abstract:** Attaining the probation elements through which the opinion expressed in the audit report is sustained represents the central element of a financial audit mission. From this perspective, the document deals with the characteristics which the audit evidence, as well as the basic procedure regarding attaining them in the course of the auditors' demarche.

**Key words:** audit evidence, quantity, quality, attaining procedures.

In the course of its mission, the auditor gathers information in order to determine the extent in which the examined information is presented according the pre-established reference criteria. As such, the information submitted to examination is represented by all the information attained and which serve issuing the conclusions on which the audit opinion will be based.

By combining all the attained evidence, the auditor must be able to decide if it can elaborate the audit report.

In the purpose of accomplishing this purpose, the audit standards (Audit standard no. 500 - Audit Evidence) retain the relevant conditions in order for the collected evidence to allow the opinion elaboration under the form of: sufficiency and *adequate character*. Also, regarding this aspect we mention that in the specialty literature, in order the express the adequate character, other equivalent terms can be encountered, among which we mention accuracy (Toma M., Chivulescu M, 1997) and solidness (Arens A., Loebbecke K., 2003).

**Sufficiency** represents the quantitative dimension of the audit evidence and regards its volume, number or value of the verified samples. According to some opinions, the evidences' sufficient character can be appreciated according to several criteria, among which the auditor's experience within past mission and the error risk discovered in the mission planning stage and in testing the inner verifications can be considered essential.

**The adequate character** constitutes the qualitative side of the audit evidence and represents the extent in which they are regarded as plausible or trustworthy.

The quality of the audit evidence is decisive for attaining the auditor's assurance that the financial statements represent a true image. In this respect there are several characteristic through which the quality of the audit evidence is defined, which will be presented shortly in the following.

*Relevance* expresses the usefulness of the evidence for grounding the auditor's opinion. In order to be useful, the evidence must strictly refer to the audit specific

objectives and also, to influence the professional reasoning in accepting or rejecting a declaration issued in the financial statements.

*The source independence degree* from which the audit evidence are attained, represent the criteria which separates the two representative categories, namely: evidence attained from external sources and from internal sources. Regarding this problem, the audit standards retain that “the audit evidence from external sources are more believable than the internal generated ones” (Audit Standard no.500 Audit Evidence). So, if the auditor attains a confirmation from a third party regarding an analyzed aspect, and, in the same time, has the employees’ answers regarding the aspect under debate, he will regard the external confirmation as more credible.

It is also mentioned that independence can be interpreted according to the degree in which the auditor or client influences the accomplishing of the attaining procedure, in the sense that it is appreciated on a higher level when the influence is exercised by the auditor and a reduced level in case it comes from the client.

*The qualification of the information suppliers* represents the criteria based on which audit evidence can be considered as more believable, even if it only partially fulfills the independence condition. So, the auditor will consider the evidence attained from a competent person as more believable, than the one attained from a person who is less familiar with the specific of the examined activities.

*The auditor’s direct involvement* leads to attaining more believable evidence than the ones attained indirectly.

*The efficiency of internal control* positively influences the credibility of the attained evidence. After performing the control tests, the auditor is able to appreciate the quality of the audit samples and the degree in which it will use them in issuing the conclusions.

*The form of the audit evidence* represents the basic criteria according to which the auditor will hold as believable the evidence materialized in documents or written confirmations other than the verbal affirmations.

*The objectivity degree* represents the extent of the auditor’s professional reasoning. In this respect, it appreciates as having an increased degree of credibility the evidence which require the smallest degree of subjective reasoning in order to determine their correctitude. Furthermore, the context in which the evidence is acquired within an audit procedure is also taken into consideration (for example, when the observation procedure is used, although the attained evidence fulfill the auditor’s individual independence and involvement criteria, generally their quality is regarded as reduced, as there is a high probability that the situation noticed by the auditor is modified immediately after his departure).

The specialty literature recommends the evaluation of the audit evidence by considering their combined effect of the qualitative and quantitative sides, which in most cases are more relevant than the particular examination of the adequate character and efficiency.

Determining the adequate character and of the audit evidence sufficiency is accomplished exclusively based on the auditor’s professional reasoning. The audit standards (Audit Standard no.500 - *Audit Evidence*) retain a series of factors which can influence the auditor’s professional judgment under this aspect, and namely:

- evaluation of the inherent risk nature and level as well as for the financial situation in their ensemble, as well as on the balance and transaction categories level;
- the nature of the accounting and inner control system, as well as the evaluation of the control risk;

- the significance threshold of the examined element;
- the experience acquired in the course of the previous performed missions;
- the results of the audit procedures, including the discovered frauds and errors;
- the source and credibility of the available information.

The auditor has the obligation of collecting the evidence for each evaluation of the leadership, distinctively, the compensation of the audit evidence lack regarding a certain assessment with the evidence attained for a different assessment being allowed.

Within the demarche of attaining sufficient and adequate evidence, the analysis of the correspondent costs, represents a problem constantly in the auditor's attention. In our opinion, the decision in this matter is an extremely delicate one, at least from the perspective of the stipulation included in the standard regarding the audit samples, according to which "*the implied costs do not intrinsically constitute a valid ground for omitting a necessary procedure*".

Another aspect which can be retained regarding the audit evidence is represented by the procedures for attaining them. The specialty literature refers to several procedures used for collecting the audit evidence, which can be classified into two significant categories (Rusovici A., Cojoc F., Rusu Gh., 2003): *basic procedures and analytical procedures*.

As the presentation of both categories require a more ample space, in the following we submit for debate the significant aspects regarding the basic procedures. In this respect, in the beginning, we consider useful to define the notion of audit procedure, by which we understand an ensemble of instructions presented in a detailed manner and used in the purpose of attaining a certain type of audit evidence, within one of its phases. The basic characteristic is represented by the precision with which the instructions are formulated within it. For example, the following formulas constitute audit procedures applied in the audit section named *Debtors and advanced payments*

- obtaining a table of the debt balances;
- obtaining a list of the commercial debtors;
- verifying the balances according to their seniority and subsequent cashing, etc

The presented instructions are completed with even more detailed elements. Referring to the last instruction, the details are presented as follows:

*„Verifying the subsequent installments in cash is an important modality of checking the debtors' balance. If round amounts are cashed, make sure that they regard the previous debts and that there are no problems regarding the not retrieved debentures for a long period of time. In the extent in which these procedures have satisfactory results, the direct confirmation of the debtors can be abandoned"* (Auditors' Chamber in Romania, 2001).

**The basic procedures** mainly insure attaining the valid information for understanding the content of the balance sheet elements, and based on it, the determination of the need to turn to external information sources.

The specialty literature retains in this category various types of procedures whose characteristic elements are exposed in the following.

*Physical examination* represents the direct modality through which the auditor verifies if an asset really exists. Next to proofing its existence, this procedure insures the evaluation of the asset's state at a given moment. Analyzed based on the criteria regarding the quality and quantity of the audit evidence, it can be appreciated that this

examination is characterized by supplying audit evidence with a relatively high qualitative level (the auditor's implication, which is a person qualified in this respect and does not require a high level of professional reasoning), but not sufficient enough (it does not offer information regarding the property right on assets). From the cost perspective, physical examination can be considered an expensive procedure, as it presupposes the auditor's presence in the moment of the organization assets' inventory, which imposes in most cases, shifting in various geographical locations with the elevated correspondent costs.

*The confirmation* represents receiving an answer in written or verbal form on behalf of a third independent party, as a consequence of the solicitation addressed by the auditor, in the name of the audited entity. In order to increase the value of the procedure, most opinions claim that the entire confirmation procedure must be managed by the leader of the audit team (the elaboration and delivery of the confirmation request, as well as the answer). The use of the confirmation method depends of the credibility degree necessary for each specific situation as well as of the alternative evidence in the auditor's possession.

Confirmation constitutes a procedure with high level of application regarding the trading debts of the entity. In this respect, the norms in our country recommend that *"if there are lots of balances, and the audit reports must be presented in a relatively short period of time, then the direct confirmation of the debtors can be a useful stage in the course of their verification."* (Auditors' Chamber in Romania, 2001). Also, the American standards (SAS 67) in the field stipulate that when proven practical and reasonable, the confirmation of a sample of the debts-clients is compulsory.

The practical demarche for accomplishing this procedure is exercised within two technical modalities and namely: *positive confirmation and negative confirmation*.

*The positive confirmation* presupposes a solicitation addressed to a third party through which an answer is required in any circumstances or based on the information which is to be confirmed, included in the application form. As the answer based on the information in the application form presupposes a relatively increased effort on behalf of the third party, a small frequency of the positive type to this solicitation is noticeable in the practical activity.

*The negative confirmation* consists of receiving the answer from the third party only in case the information is correct.

The examination based on quality reveals the fact that the confirmation procedure offers highly appreciated audit evidence, their adequate character being sustained by relevance, information source independence, auditor's involvement and in many situations the presentation form.

From the quantitative point of view it can be appreciated that the evidence attained by confirmation are not sufficient, they are justified even by the name of the procedure which suggests that it is a completion of the information otherwise obtained.

From the cost point of view, the confirmation is considered to be costly enough, taking into consideration the administration of the process as such (elaborating the form, expedition, reception, etc).

In other words, it is mentioned that in the situations in which the auditor does not obtain confirmation on behalf of the third parties, the application of other procedures, named *alternative procedures* (such as the examination of a subsequent installment) proves necessary.

*The documentation* represents the examination of the documents and evidence

in the purpose of determining those aspects which should be included in the financial statements.

This constitutes a relevant procedure for obtaining audit evidence from at least two points of view.

Firstly, the evidence constitutes a strictly necessary component for the activity administration in an organized manner. As such, by studying them, the auditor obtains a higher quantity of information regarding the activity as an ensemble of entities.

Second of all, the accounting system includes documentation among the used procedures, the fact that any operation registered in accounting is based on a document is well known. So, through documentation a multitude of information is obtained regarding the conceiving and functioning of the entity's accounting system.

Analyzed through the qualitative dimension, the documentation insures obtaining such evidence with an increased credibility in the case of external documents, due to the fact that they are relevant, obtained from an independent source and issued by competent persons.

Regarding the completion of the quantity criteria, as in the case of the previous procedures, the auditors determine these characteristics based on the audit's objectives.

Under the aspect of the cost, it can be appreciated that the documentation is situated on a medium level, compared to the other procedures of obtaining the audit evidence.

*The observation* consists of following a process or a procedure within the entity. Through this, the auditor has an overview of the client's assets, follows the manner in which the employees perform their functions (mainly in the accounting system), etc.

Observation represents an useful procedure in accomplishing the mission, but the obtained evidence does not fulfill the conditions imposed regarding their conclusions. That is why the practitioners consider that the situations in which the attained evidence are enough, and from the quality point of view the strong element is constituted only by the auditor's implication.

Analyzed from the cost point of view, the observance is framed between the two less expensive procedures applied by the auditor.

*Questioning or interrogation* is the procedure through which written or verbal information are attained by means of the questions addressed to the personnel of the audited entity.

Questioning is a procedure characterized by a reduced conclusiveness of the obtained evidence as a result of both the qualitative side as well as the quantitative one.

Regarding the cost for obtaining the evidence through it is classified under the category of the cheap procedures.

With all the defective aspects regarding the conclusiveness of the evidence attained through this procedure, due to the matters of cost, as well as the extended collaboration possibilities with other information, it is used for many test performed by the auditor. From this perspective, we appreciate the presentation of a few recommendations in the specialty literature regarding the surveys' elaboration and namely:

- formulating a optimal set of questions, clear and easy to understand, which varies according to the analyzed problem and to the interviewed person;
- the question elaboration will be performed in a manner which does not have personal character of which does not imply answer;

- in the situation in which the survey is elaborated by a team, the paper coordinator must not annul the questions asked by another colleague, but he must patiently wait for the answer, afterwards he can intervene with new ones;
- when the interviewed persons offers an evasive answer to the addressed question, a lot of tact is required in the purpose of finding the most suitable modality for insisting in obtaining a satisfactory answer.
- all the questions addressed through the survey must be subject to some aspects on which the auditor already formed an impression or has an answer, accomplishing simultaneously the appreciation of the interviewed person's credibility.

*The reconstitution or calculation* presupposes the verification of the arithmetic accuracy of the justifying documents and of the accounting registrations. In this purpose the auditor reconstitutes the evolution of some amounts in order to convince that any information registered in several places has the same amount every time.

This procedure is characterized by a relatively high conclusiveness of the obtained evidence, which is supported by the source independence and its objectivity.

From the implied cost perspective it is retained that it requires minimum costs, facilitated aspect and the possibility of using some IT audit programs in this respect.

In conclusion, the rigorous application of the procedures regarding obtaining the evidence constitute, among others, an essential condition for founding a pertinent opinion regarding the fidelity of the financial statements.

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